TRIGON

Thomas G. Snead, Jr.
Chairman of the Board and
Chief Executive Officer

June 22, 2001

Mr. William Jews
Chief Executive Officer
CareFirst Blue Cross and Blue Shield
10455 Mill Run Circle
Owings Mills, MD 21117

Dear Bill:

We commend your many months of work in positioning CareFirst for its merger conversion. It is clear that you have readied many constituencies to reach this point. Indeed, it is our sense from you and your advisors that you may at long last be in a position to choose a partner and run forward towards an announced transaction. We write then to confirm Trigon's steadfast interest in becoming that selected partner. Our intent is founded in a fundamental belief that we are the natural partner for CareFirst when considering the best interests of customers, providers, and employees in the region. Please note that for confidentiality reasons, I am preparing a separate letter outlining my thoughts on our respective roles, the structure and location of operations, and how we might work together.

As you know, many of the key business terms of our prior offers were put forward as a result of guidance we felt that we had received from you or your advisors. As this process has evolved, we feel that parts of our offer, which we left open to discussion, may have been interpreted in a negative light. To that end, we wish to clarify several aspects of our non-binding offers made to you on March 2nd, March 18th and April 23rd, 2001. Based on the information we received on your first quarter financial performance, we are also prepared to improve certain aspects of our offer as detailed below.

Throughout the past several months, we have sought to understand and respond to your objectives in the conversion process. We believe we have been guided towards an expressed goal of maximizing price while also maximizing the certainty of closing at that price. We respect these objectives. Within this framework, however, we have also been asked to consider many non-money issues including board seats, personnel integration plans and operating locations. On these points, we have tried to be specifically responsive to your wishes. Naturally, we have sought to maintain a balanced view of the governance and operational issues requisite to the proper management of the combined companies. After your review of this offer letter, if you can further clarify any remaining points of concern you may have about these issues in the context of a CareFirst/Trigon combination, we will work quickly to respond.

Our purpose in our earlier offer letters was, and remains in this correspondence, to put forward a fair and full offer that can be understood and supported by your regulators and other government officials, policyholders, other affected parties and; of course, you and your Board. With your support, we believe we can move quickly to a binding definitive agreement that will be in the best interests of all.

Points of Clarification and Improvement From Prior Offer Letters

Performance "MAC" Clause - As in all acquisitions, our valuation work assumed that your performance forecasts presented the most accurate view possible of the likely future performance of your business. As CareFirst was forecasting substantial operating improvements and our proposed offer price reflects this improvement, we had originally requested some assurance that this performance would be achieved. Assuming that we can reach an agreement on the interim operating agreements as discussed below, and based on the continuing improvement in CareFirst's performance, we are now prepared to work within the definition of more traditional MAC language in the definitive agreement.

Interim Operating Arrangements - Given the long period between signing a definitive agreement and closing, and our movement to a traditional MAC clause, we would want to establish interim operating agreements that would be beneficial to both companies and assure a smooth integration process post closing. As such, we believe we should begin to act as partners as soon as possible. We would therefore want to exchange regular reports on business operations and plans and share perspectives on trends and developments in our respective markets. In addition we request that Trigon would be consulted on all major business decisions that are in the ordinary course. Such decisions would include, but would not be limited to, pricing, underwriting, reserve levels and senior personnel changes. Please note that Trigon's role with respect to business decisions in the ordinary course would be only consultative. Decisions that are outside the ordinary course (material changes in operations, acquisitions, new business ventures, etc.) would be made jointly by Trigon and CareFirst.

Integration Plans/Job Reductions- To our great surprise, recent discussions with your advisors have led us to understand that because we have not commented on employment plans post merger, you may be assuming a rather negative impact on jobs as a result of proximity in a Trigon/CareFirst business combination. This belief may have come about as a result of our reference to a "light touch" transaction designed to imply the lack of need for substantial changes. Reference to a "light touch" should not be meant to imply that there is also a "heavy touch" plan just waiting to be implemented. We were not previously specific about job plans because we intended that you and I would sit down together and figure out what was best for our business, as partners. We did not yet feel qualified to comment unilaterally on individual employment matters. Sensing that this approach is viewed as a bit ambiguous, we would like to make our position as clear as possible.

Our intent in proposing this partnership is to enhance the financial strength of our combined companies, to maintain local control (rather than affiliating with companies from outside the area), to take advantage of the resources of our two companies, to gain efficiencies of scale and to enhance our common ability to offer products demanded by consumers across our region. We will both be able to compete more effectively in a competitive health insurance market by creating a larger, more efficient organization which can better serve the needs of the members that live and work in our contiguous service areas – service areas that have historically prevented either of us from serving seamlessly the subscribers of the Washington metropolitan area. Thus we anticipate that our ability to service our customers more effectively and efficiently across the region will actually make our combined organization more competitive against national companies, driving growth in new membership for our plan and employment for the region.

The work required to bring our operations and systems together should necessitate additional employment for many. Some redundancies that may exist in the combination can likely be solved through attrition. To be clear, however, it is our intent and expectation that there will not be any reductions in employment levels. We plan to employ no less than the number of employees presently employed in each of the jurisdictions. To the extent, however, that business conditions change and that the number of employees deviates from that standard, such deviation would have to be approved by our combined Board and fully justified by the two of us using prudent business judgement.

Form of Consideration - We have previously offered $1.3 billion in cash (60%) and stock (40%) for CareFirst. Our original offering included a financing out, which we felt was necessary given the long period to close. With guidance from your advisors, however, and in an attempt to increase the certainty of closing, we developed an emergency financing mechanism: a Trigon note that could be offered on a temporary basis in times of severe market dislocation. We wish to be clear that it is not our intention to offer this note. We have every confidence that the lead time to closing on our merger will allow us to routinely arrange for the required cash. We propose that the note, if ever used, carry an interest rate that would be punitive relative to today's market conditions and include a severe cost escalator to motivate Trigon to take out the loan as soon as possible. Specifically, we would propose a one year maturity with an interest rate of 3-month LIBOR plus 250 basis points. This rate would increase 50 basis points per quarter. Please note that Trigon today borrows from its bank group at LIBOR plus 50 basis points and that the proposed terms would be extremely unattractive to us. In sum, the note helps guarantee closing in the most unlikely of market conditions and is structured to ensure an early refunding with cash. The designated foundations should expect to receive Trigon cash and stock at close.

We have attached a revised summary of the Key Business Terms of our offer. We look forward to any meeting or discussion that you feel appropriate to expand or clarify on this correspondence. We believe the business logic behind the combination of our two companies is inherently obvious. It is our intent through this offer to help meet your expressed objectives of maximizing value and the probability of closing. In sum, we hope you feel that the combination of business logic and value delivered make it appropriate to sit down and work out the final details of an agreement with Trigon. We look forward to working the long process forward to closing together.

This letter is not a binding offer or agreement to acquire CareFirst. Any binding agreement must be reflected in a definitive agreement signed by both parties. The terms of this letter are confidential and subject to the Confidentiality Agreement dated September 21, 2000, between Trigon and CareFirst.

Bill, if you have any question regarding any elements of our proposed alliance, please call me directly.

Sincerely,

Thomas G. S

Attachment: Revised Summary of Key Business Terms

cc: Stuart Smith
Isaac Neuberger

CareFirst / Trigon Partnership
Summary of Key Business Terms

Transaction	Trigon shall acquire 100% of the CareFirst Common Stock (the "Transaction") for aggregate consideration of $1.3 billion ("Aggregate Purchase Price"). The Conversion shall be structured as a tax-free reorganization, and the parties shall receive an appropriate tax ruling.
Consideration	We propose that the aggregate consideration paid by Trigon for 100% of the CareFirst Common Stock (the "Aggregate Consideration") shall be structured 60% in cash and 40% in Trigon stock. We are, however, flexible with respect to the mix of consideration
Stock Component	A fixed price method shall be employed to determine the stock component, subject to a maximum issuance of 11.5 million shares of Trigon stock. This is not a walk-away. Trigon would bear the burden of the first 22½% decline in its stock price. CareFirst and Trigon would share the impact of any decline thereafter, as illustrated by attached exhibit.
Registration Rights	Trigon is committed to assisting the Tax Exempt Entities with the orderly liquidation of their equity holdings. We will cooperate with the Tax Exempt Entities in registering and marketing their shares, subject to the market's reasonable ability to absorb the volume and appropriate provisions limiting registration during certain periods. The Tax Exempt Entities shall be entitled to mutually agreeable demand registrations and piggyback rights.
Voting Trust	Any Tax Exempt Entity that owns more than 5% of Trigon stock will enter into a voting trust agreement reflecting the voting, standstill, and sell down provisions as mutually agreed upon by the BCBSA, the Tax Exempt Entity and Trigon
Financing	We are confident that we can finance the cash portion of the Aggregate Consideration with existing cash and existing or new debt facilities. In the event that financial market conditions severely and adversely change, such that we are unable during the extended delay between signing and closing to arrange debt financing, we would substitute a note on a dollar for dollar basis for up to half the value of the cash component. The note would be a financing of last resort, mature in one year and carry an initial interest rate of LIBOR plus 250 basis points, increasing 50 basis points each quarter.
Material Adverse Change	We would propose a standard Material Adverse Change provision.
Executive Presence	Trigon HealthCare, Inc. will remain a Virginia corporation. Tom Snead expects to spend a majority of his time in Owings Mills and will maintain an office there as will other senior executives officers. Mr. Snead would establish a second residence in Baltimore.
Board Representation	Five members of the CareFirst Board of Directors, to be mutually agreed upon by CareFirst and Trigon, shall be appointed to the Board of Directors of Trigon HealthCare, Inc. at closing. The location of Board meetings would be determined by the Chairman, in consultation with rest of the Board.

Existing Boards of Directors	It is our intention to preserve the roles of the existing Boards of Directors of CareFirst of Maryland, DC and Delaware as Advisory Boards, and we would be grateful if the current members of these boards would continue to serve the Company and the community by providing advice and counsel on issues of service, provider policy, member satisfaction, and health care quality, in addition to providing input and feedback with respect to our local market integration plans and community relations programs.
Non-Solicitation	We would ask that CareFirst not, directly or indirectly, solicit, initiate, encourage, or induce any Acquisition Proposal with respect to CareFirst or engage in negotiations with, or disclose any nonpublic information relating to CareFirst to any Person that may be considering making, or has made, an Acquisition Proposal with respect to CareFirst.
Transaction Protection	We would receive appropriate transaction protection mechanisms, including a right to match any subsequent competing offer deemed superior from a fiduciary point of view, and a proposal that if CareFirst terminates its Agreement with Trigon and enters into a Definitive Agreement with another party within two years following termination, then CareFirst would pay to Trigon a termination fee of 4% of the purchase price in recognition of its substantial investment.
Expense Reimbursement	While both CareFirst and Trigon will bear liability for their own expenses associated with this Transaction, our conversion experience suggests that we are likely to bear substantial expenses on behalf of third parties involved in the approval process. We would expect that in the event that the transaction terminates due to no fault of Trigon, that we be reimbursed for the extraordinary expenses associated with this unusual transaction
Termination provisions	The initial term of this agreement would be eighteen months, unless extended by mutual consent of CareFirst and Trigon.
Corporate names	We are committed to whatever corporate branding approach makes the best business sense. Choosing a single name under which to market BCBS coverage in our overlapping markets makes sense. Between signing and closing, the Transition team will market test the CareFirst BCBS and Trigon BCBS names to determine whether either, or a new BCBS trade name, is most effective. We would then transition the preferred market place name on a schedule that makes sense, subject, of course, to appropriate regulatory and BCBSA approval. The holding company, will continue to trade on the New York Stock Exchange as Trigon HealthCare, Inc. (TGH)
Commitment to associates	The bulk of the value creation opportunities that we foresee come from growth, not cost reductions. It is our intent and expectation that there will not be any reductions in employment levels. We plan to employ no less than the number of employees presently employed in each of the jurisdictions. To the extent, however, that business conditions change and that the number of employees deviates from that standard, such deviation would have to be approved by our combined Board and fully justified by Bill Jews and Tom Snead using prudent business judgement.
Presence	Trigon is sensitive to the issues of local employment and we are committed to maintaining a continuing presence in the markets in which we compete at a level commensurate with our opportunity.

Location of employees / facilities by state	Trigon shares the CareFirst team's belief that healthcare is a locally delivered business. Trigon is committed to a substantial continuing employee presence in CareFirst's markets. We are confident that the combination of our organizations will ultimately allow us together to create new employment opportunities in our combined markets. Decisions regarding the locations of future operations will be made in consultation with the local Advisory Boards.
Continued service of segments	Our strategy is founded on creating and delivering value to our members at an economic level that allows us to continue investing for growth. For those segments in which we are, together, able to deliver value for members, providers, and shareholders, we expect to see substantial growth. For those segments in which we are unable to create value, we anticipate working with the appropriate regulators, and others to find a constructive solution.
Continued relationships with providers	Trigon is committed to continue building upon CareFirst's strong provider relationships. Our long-standing strategy has been to cultivate, maintain, and improve a broad network of high-quality providers so that we can deliver value for our members. Today, we have the broadest networks in Virginia, with over 95% of physicians and 100% of hospitals voluntarily participating in our networks. We take a long term view of provider partnership, and have in place today hospital contracts with terms of up to twenty years. Working together with CareFirst, we have an opportunity to provide stability and create value for providers throughout the Mid-Atlantic region by offering long term agreements, eliminating administrative hassles, standardizing coverage for their patients and by investing in technology at a level unattainable by either of us independently.
Confirmatory due diligence / list of documents	We would like to refresh our view of value based on the documents we requested on our document list submitted on November 14, 2000, through examination or discussion. In addition, we would request the following documents: • In connection with each Affiliation (MD/DC/DE), a complete copy of the Affiliation Agreement and Inter-company Agreement • "Snapshot" valuation of the Delaware business
Timetable	We are prepared for simultaneous confirmatory due diligence and negotiation of a definitive agreement within 30 days. The critical first step in our diligence process will be working with you in outlining the programmatic approach through which we will jointly ensure the successful completion of this partnership - including the key activities, milestones, and timelines for the negotiation, diligence, communication, filing, multijurisdictional approval and closing of this partnership agreement.
Approvals	The proposed transaction is also subject to certain other customary items being satisfied prior to consummating a transaction, including the negotiation and execution of a definitive purchase agreement and related documents, and receipt of required Board, shareholder and regulatory approvals.

($ in millions, except per share data)

Overview of Collar Mechanism

Assumed Change in TGH Share Price	Assumed TGH Share Price	Proceeds to Chevy: Cash	Proceeds to Chevy: Stock: Shares	Proceeds to Chevy: Stock: Value	Chevy Consideration	% Change to Purchase Price
5.0%	61.43	780.0	8.47	520.0	1,300.0	*0.0%*
0.0%	58.50	780.0	8.89	520.0	1,300.0	*0.0%*
-5.0%	55.58	780.0	9.36	520.0	1,300.0	*0.0%*
-10.0%	52.65	780.0	9.88	520.0	1,300.0	*0.0%*
-15.0%	49.73	780.0	10.46	520.0	1,300.0	*0.0%*
-20.0%	46.80	780.0	11.11	520.0	1,300.0	*0.0%*
-22.7%	45.22	780.0	11.50	520.0	1,300.0	*0.0%*
-25.0%	43.88	780.0	11.50	504.5	1,284.5	*-1.2%*
-30.0%	40.95	780.0	11.50	470.9	1,250.9	*-3.8%*
-35.0%	38.03	780.0	11.50	437.3	1,217.3	*-6.4%*
-40.0%	35.10	780.0	11.50	403.6	1,183.6	*-9.0%*
-45.0%	32.18	780.0	11.50	370.0	1,150.0	*-11.5%*
-50.0%	29.25	780.0	11.50	336.4	1,116.4	*-14.1%*
-55.0%	26.33	780.0	11.50	302.7	1,082.7	*-16.7%*

Assumptions

TGH Share Price as of June 22, 2001		$	58.50
Deal Information			
Purchase Price		$	1,300.0
Cash	60%		780.0
Stock	40%		520.0

OCC 009149

TOTAL P.09